

**AMERICAN COUNCIL FOR AN
ENERGY-EFFICIENT ECONOMY**

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT**

DECEMBER 31, 2016, 2015 AND 2014

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Independent Auditor's Report

To the Board of Directors
American Council for an Energy-Efficient Economy
Washington, DC

We have audited the accompanying financial statements of American Council for an Energy Efficient Economy, a non-profit organization, which comprise the statements of financial position as of December 31, 2016, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Council for an Energy-Efficient Economy as of December 31, 2016, 2015, and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited American Council for an Energy-Efficient Economy's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 24, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of fringe benefits expenses, schedule of indirect costs, schedule of determination of indirect costs rates, and schedule of determination of other rates are presented for purposes of additional analysis and are not required parts of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Jane Morrison & McQuade PA

Washington, DC
May 26, 2017

AMERICAN COUNCIL FOR AN ENERGY-EFFICIENT ECONOMY
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016, 2015 AND 2014

	2016	2015	2014
<u>ASSETS</u>			
CURRENT ASSETS			
Cash and cash equivalents	\$ 291,310	\$ 584,344	\$ 133,558
Grants, contributions, and contracts receivable	1,378,343	596,992	515,060
Accounts receivable, net	108,430	109,536	87,329
Prepaid expenses	82,794	40,840	97,444
Short-term investments	2,033,400	763,978	1,563,191
Total Current Assets	3,894,277	2,095,690	2,396,582
NON-CURRENT ASSETS			
Property and equipment, net	383,130	309,071	338,530
Investments	5,450,579	5,873,831	5,387,866
Deposits	37,754	37,754	37,754
Total Non-Current Assets	5,871,463	6,220,656	5,764,150
TOTAL ASSETS	\$ 9,765,740	\$ 8,316,346	\$ 8,160,732
<u>LIABILITIES AND NET ASSETS</u>			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	\$ 311,709	\$ 205,015	\$ 299,682
Deferred revenue	169,751	100,805	111,000
Total Current Liabilities	481,460	305,820	410,682
NON-CURRENT LIABILITIES			
Deferred rent	353,759	342,733	395,753
Total Liabilities	835,219	648,553	806,435
NET ASSETS			
Unrestricted:			
Available for operations	4,331,478	4,029,926	3,885,362
Board designated	125,276	175,276	175,276
Total Unrestricted	4,456,754	4,205,202	4,060,638
Temporarily restricted	4,473,767	3,462,591	3,293,659
Total Net Assets	8,930,521	7,667,793	7,354,297
TOTAL LIABILITIES AND NET ASSETS	\$ 9,765,740	\$ 8,316,346	\$ 8,160,732

The accompanying notes are an integral part of these financial statements.

AMERICAN COUNCIL FOR AN ENERGY-EFFICIENT ECONOMY
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Grants and contributions	\$ 44,680	\$ 6,327,959	\$ 6,372,639
Contracts	956,077	-	956,077
Ally program	581,000	-	581,000
Conference	2,069,447	34,378	2,103,825
Interest and dividends	128,034	-	128,034
Net appreciation in fair value of investments	268,137	-	268,137
Other income	4,766	-	4,766
Net assets released from restrictions	5,351,161	(5,351,161)	-
Total Revenue and Support	9,403,302	1,011,176	10,414,478
EXPENSES			
Program Services:			
Research programs	5,219,118	-	5,219,118
Conference	1,916,660	-	1,916,660
Lobbying	57,570	-	57,570
Total Program Services	7,193,348	-	7,193,348
Support Services:			
Development	215,071	-	215,071
General and administrative	1,743,331	-	1,743,331
Total Support Services	1,958,402	-	1,958,402
Total Expenses	9,151,750	-	9,151,750
CHANGE IN NET ASSETS	251,552	1,011,176	1,262,728
NET ASSETS, beginning of year	4,205,202	3,462,591	7,667,793
NET ASSETS, end of year	\$ 4,456,754	\$ 4,473,767	\$ 8,930,521

The accompanying notes are an integral part of these financial statements.

AMERICAN COUNCIL FOR AN ENERGY-EFFICIENT ECONOMY
STATEMENTS OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2015
WITH SUMMARIZED COMPARATIVE TOTALS FOR 2014

	Unrestricted	Temporarily Restricted	Total	2014 Total
REVENUE AND SUPPORT				
Grants and contributions	\$ 12,441	\$ 5,071,280	\$ 5,083,721	\$ 4,346,568
Contracts	703,732	-	703,732	1,327,839
Ally program	525,500	-	525,500	521,333
Conference	1,906,408	191,146	2,097,554	2,224,475
Publications	-	-	-	2,175
Interest and dividends	114,298	-	114,298	114,380
Net (depreciation) appreciation in fair value of investments	(127,543)	-	(127,543)	128,804
Other income	5,357	-	5,357	15,151
Net assets released from restrictions	5,093,494	(5,093,494)	-	-
Total Revenue and Support	8,233,687	168,932	8,402,619	8,680,725
EXPENSES				
Program Services:				
Research programs	4,475,179	-	4,475,179	4,473,548
Conference	1,764,529	-	1,764,529	1,941,138
Publications	547	-	547	12,086
Lobbying	68,263	-	68,263	60,869
Total Program Services	6,308,518	-	6,308,518	6,487,641
Support Services:				
Development	162,526	-	162,526	144,610
General and administrative	1,618,079	-	1,618,079	1,521,197
Total Support Services	1,780,605	-	1,780,605	1,665,807
Total Expenses	8,089,123	-	8,089,123	8,153,448
CHANGE IN NET ASSETS	144,564	168,932	313,496	527,277
NET ASSETS, beginning of year	4,060,638	3,293,659	7,354,297	6,827,020
NET ASSETS, end of year	\$ 4,205,202	\$ 3,462,591	\$ 7,667,793	\$ 7,354,297

The accompanying notes are an integral part of these financial statements.

AMERICAN COUNCIL FOR AN ENERGY-EFFICIENT ECONOMY
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2016

	Research Programs	Conference	Lobbying	Total Program Services	Development	General and Administrative	Total
Personnel Expenses							
Salaries	\$ 2,773,852	\$ 361,693	\$ 5,140	\$ 3,140,685	\$ 101,236	\$ 851,025	\$ 4,092,946
Fringe benefits	1,091,910	142,553	2,078	1,236,541	40,807	348,771	1,626,119
Total Personnel Expense	<u>3,865,762</u>	<u>504,246</u>	<u>7,218</u>	<u>4,377,226</u>	<u>142,043</u>	<u>1,199,796</u>	<u>5,719,065</u>
Accounting fees	-	-	-	-	-	26,800	26,800
Bank charges	-	56,946	-	56,946	810	6,382	64,138
Conferences and meetings	29,323	842,629	-	871,952	1,497	1,504	874,953
Consultants	564,518	257,225	49,250	870,993	36,511	79,081	986,585
Depreciation and amortization	81,850	10,660	152	92,662	2,956	12,808	108,426
Dues and subscriptions	9,130	-	-	9,130	-	12,082	21,212
Insurance	-	-	-	-	-	19,421	19,421
Legal services	-	-	-	-	-	6,739	6,739
Meals and entertainment	2,296	10,532	-	12,828	2,915	19,858	35,601
Miscellaneous	-	-	-	-	-	14,259	14,259
Postage and shipping	413	46,303	-	46,716	-	2,581	49,297
Printing	616	29,930	-	30,546	974	36,643	68,163
Rent	395,289	51,699	744	447,732	14,462	117,347	579,541
Staff development	703	299	-	1,002	-	43,544	44,546
Supplies	7,860	39,209	-	47,069	-	52,021	99,090
Telephone	1,624	3,274	-	4,898	-	78,283	83,181
Travel	259,734	63,708	206	323,648	12,903	14,182	350,733
Total Expenses	<u>\$ 5,219,118</u>	<u>\$ 1,916,660</u>	<u>\$ 57,570</u>	<u>\$ 7,193,348</u>	<u>\$ 215,071</u>	<u>\$ 1,743,331</u>	<u>\$ 9,151,750</u>

The accompanying notes are an integral part of these financial statements.

AMERICAN COUNCIL FOR AN ENERGY-EFFICIENT ECONOMY
STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2015
WITH SUMMARIZED COMPARATIVE TOTALS FOR 2014

	Research Programs	Conference	Publications	Lobbying	Total Program Services	Development	General and Administrative	2015 Total	2014 Total
Personnel Expenses									
Salaries	\$ 2,427,757	\$ 349,178	\$ -	\$ 5,170	\$ 2,782,105	\$ 70,016	\$ 781,591	\$ 3,633,712	3,497,893
Fringe benefits	893,860	128,628	-	1,908	1,024,396	26,323	292,427	1,343,146	1,352,113
Total Personnel Expense	3,321,617	477,806	-	7,078	3,806,501	96,339	1,074,018	4,976,858	4,850,006
Accounting fees	-	-	-	-	-	-	34,554	34,554	36,827
Bad debt expense	-	-	-	-	-	-	21,080	21,080	-
Bank charges	-	50,331	547	-	50,878	1,782	5,000	57,660	81,900
Cafeteria plan services	-	-	-	-	-	-	-	-	1,880
Conferences and meetings	27,646	827,610	-	-	855,256	4,281	5,626	865,163	762,622
Consultants	452,738	193,857	-	60,000	706,595	11,563	94,331	812,489	1,088,875
Depreciation and amortization	78,170	11,309	-	167	89,646	2,280	12,319	104,245	47,748
Dues and subscriptions	2,497	-	-	-	2,497	-	8,044	10,541	53,143
Equipment rental	-	-	-	-	-	-	2,265	2,265	1,002
Insurance	-	-	-	-	-	-	26,369	26,369	34,863
Legal services	957	-	-	-	957	-	4,360	5,317	2,429
Meals and entertainment	1,877	-	-	-	1,877	8,247	8,801	18,925	8,607
Miscellaneous	-	-	-	-	-	8,366	4,087	12,453	19,369
Postage and shipping	-	15,071	-	-	15,071	-	1,913	16,984	55,335
Printing	19,221	59,624	-	-	78,845	3,234	19,128	101,207	79,559
Rent	389,341	56,071	-	829	446,241	11,176	129,163	586,580	568,099
Staff development	740	510	-	-	1,250	-	17,906	19,156	6,994
Supplies	4,662	9,789	-	-	14,451	13	48,633	63,097	72,795
Taxes	-	-	-	-	-	-	-	-	599
Telephone	2,147	4,587	-	-	6,734	-	81,030	87,764	93,803
Travel	173,566	57,964	-	189	231,719	15,245	19,452	266,416	286,993
Total Expenses	\$ 4,475,179	\$ 1,764,529	\$ 547	\$ 68,263	\$ 6,308,518	\$ 162,526	\$ 1,618,079	\$ 8,089,123	\$ 8,153,448

The accompanying notes are an integral part of these financial statements.

AMERICAN COUNCIL FOR AN ENERGY-EFFICIENT ECONOMY
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

	<u>2016</u>	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Change in net assets	\$ 1,262,728	\$ 313,496	\$ 527,277
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization	108,426	104,245	47,748
Net depreciation (appreciation) in fair value of investments	(268,137)	127,543	(128,804)
Bad debt expense	-	21,080	-
(Increase) decrease in assets:			
Grants, contributions, and contracts receivable	(781,351)	(81,932)	(233,852)
Accounts receivable, net	1,106	(43,287)	40,402
Prepaid expenses	(41,954)	56,604	86,867
Inventory	-	-	6,965
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses	106,694	(94,667)	(114,541)
Deferred revenue	68,946	(10,195)	111,000
Deferred rent	11,026	(53,020)	179,509
Net Cash Provided By Operating Activities	<u>467,484</u>	<u>339,867</u>	<u>522,571</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	(182,485)	(69,230)	(342,142)
Purchases of investments	(1,378,033)	(619,851)	(1,402,002)
Proceeds from sales of investments	800,000	800,000	750,000
Net Cash Provided By (Used in) Investing Activities	<u>(760,518)</u>	<u>110,919</u>	<u>(994,144)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(293,034)	450,786	(471,573)
CASH AND CASH EQUIVALENTS, beginning of year	<u>584,344</u>	<u>133,558</u>	<u>605,131</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 291,310</u>	<u>\$ 584,344</u>	<u>\$ 133,558</u>

The accompanying notes are an integral part of these financial statements.

AMERICAN COUNCIL FOR AN ENERGY-EFFICIENT ECONOMY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016, 2015 AND 2014

NOTE A – ORGANIZATION AND NATURE OF BUSINESS

The American Council for an Energy Efficient Economy (“ACEEE”) is a not-for-profit organization incorporated under the laws of California during February 1980. The objectives of ACEEE are to gather, evaluate and disseminate information to stimulate greater efficiency of energy use. ACEEE focuses on program areas including energy policy, research, and outreach; such as conferences, publications, and other forums for professionals and other organizations within the field.

ACEEE carries out its mission by conducting technical and policy analyses; advising policy makers and program managers; working with businesses, government officials, public interest groups, and other organizations; assisting traditional and new media to cover energy efficiency policy and technical issues; and educating consumers and businesses through ACEEE books, conferences, press activities, and websites. ACEEE's primary sources of revenue are conference registrations and foundation and federal grants and contracts.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

ACEEE’s financial statements are prepared on the accrual basis of accounting. Therefore, revenue and related assets are recognized when earned and expenses and related liabilities are recognized as the obligations are incurred.

Basis of Presentation

Financial statement presentation follows Financial Standards Accounting Board (“FASB”) Accounting Standards Codification (“ASC”) Topic Not-for-Profit-Entities. In accordance with the topic, ACEEE is required to report information regarding its financial position and activities according to three classes of net assets. Accordingly, net assets of ACEEE and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. The Board of Directors has designated amounts raised by ACEEE’s 25th Anniversary campaign for certain future projects.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of ACEEE and/or the passage of time.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by ACEEE. There were no permanently restricted net assets as of December 31, 2016, 2015 and 2014.

AMERICAN COUNCIL FOR AN ENERGY-EFFICIENT ECONOMY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016, 2015 AND 2014
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

The term cash and cash equivalents as used in the accompanying financial statements include currency on hand, demand deposits, and highly liquid investments purchased from financial institutions with an original maturity of three months or less.

Short-Term Investments

Short-term investments consist of money market funds held in investment accounts and certificates of deposits with an original maturity of greater than three months.

Contracts Receivable

Contracts receivable are stated at the amount that management expects to collect from services provided under federal grants, and non federal contracts.

Grants, Contributions, and Accounts Receivable

Grants, contributions, and accounts receivable are stated at the amount management expects to collect from outstanding balances. An allowance for doubtful account has been established in the amount of \$0, \$0, and \$10,991 as of December 31, 2016, 2015, and 2014, respectively. Management estimates of the allowance for doubtful accounts are based on historical experience updated for current economic conditions. If actual experience changes, revisions to the allowance may be necessary. It is ACEEE's policy to charge off uncollectible accounts receivable when management determines that the receivable will not be collected.

Investments

Investments in mutual funds are reported at fair value based on quoted market prices, if available. Interest is recognized when earned. Dividends are recorded on the ex-dividend date. Net appreciation and depreciation in fair value of investments is recognized in the statements of activities in the period in which such changes occur. Donated stocks are recognized at fair value on the date of the donation.

Property and Equipment

Purchases of property and equipment over \$1,000 and expected lives of greater than one year are capitalized at historical cost, or if donated, at the approximate fair value at date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which ranges from three to seven years.

AMERICAN COUNCIL FOR AN ENERGY-EFFICIENT ECONOMY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016, 2015 AND 2014
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment - continued

Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the useful life of the asset. When assets are sold or otherwise disposed of, the asset and related accumulated depreciation are removed from the accounts, and any remaining gain or loss is included in operations. Expenditures for repairs and maintenance are charged to expense as incurred.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, (that is, when a stipulated time restriction end or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Contract revenue received from corporations, federal and non-federal agencies are recognized on a cost reimbursement basis to the extent of allowable direct and indirect costs are incurred. Publications revenue is recognized when the publication is shipped to the customer. Conference revenue is recognized in the year the conference is held.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

AMERICAN COUNCIL FOR AN ENERGY-EFFICIENT ECONOMY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016, 2015 AND 2014
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Comparative Information

The statements of activities includes certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with ACEEE’s financial statements for the year ended December 31, 2014 from which the summarized information was derived.

NOTE C – INCOME TAXES

ACEEE is a 501(c)(3) organization exempt from federal income taxes on related income under Section 501(a) of the Internal Revenue Code and has not been classified as a private foundation by the Internal Revenue Service.

ACEEE believes that it has appropriate support for any tax provisions taken, and as such, does not have any uncertain tax provisions that are material to the financial statements or that would have an effect on its tax-exempt status. There are no unrecognized tax benefits or liabilities that need to be recorded.

ACEEE’s information returns are subject to examination by the Internal Revenue Service for a period of three years from the date they were filed, except under certain circumstances. ACEEE’s information returns for the years 2013 through 2015 are open for a tax examination by the Internal Revenue Service, although no request has been made as of the date of these financial statements.

NOTE D – GRANTS AND CONTRACTS RECEIVABLE

Grants, contributions, and contracts receivable are considered fully collectible, due within one year and consist of the following:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Grants and contributions	\$ 1,150,000	\$ 400,000	\$ -
Contracts	<u>228,343</u>	<u>196,992</u>	<u>515,060</u>
Total Grants, Contributions, and Contracts Receivable	<u>\$ 1,378,343</u>	<u>\$ 596,992</u>	<u>\$ 515,060</u>

AMERICAN COUNCIL FOR AN ENERGY-EFFICIENT ECONOMY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016, 2015 AND 2014
(continued)

NOTE E – PROPERTY AND EQUIPMENT

The following is a summary of property and equipment as of December 31, 2016, 2015 and 2014:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Furniture and equipment	\$ 208,285	\$ 46,994	\$ 230,792
Software	241,781	328,675	280,340
Leasehold improvements	349,822	241,734	241,734
	<u>799,888</u>	<u>617,403</u>	<u>752,866</u>
Less accumulated depreciation and amortization	<u>(416,758)</u>	<u>(308,332)</u>	<u>(414,336)</u>
 Total Property and Equipment, Net	 <u>\$ 383,130</u>	 <u>\$ 309,071</u>	 <u>\$ 338,530</u>

Depreciation and amortization expense for the years ended December 31, 2016, 2015 and 2014 was \$108,426, \$104,245 and \$47,748, respectively.

NOTE F – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Fair value, as defined in the fair value measurement accounting guidance, is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, or exit price. The guidance on fair value measurement accounting requires that ACEEE make assumptions market participants would use in pricing an asset or liability based on the best information available. ACEEE considers factors that were not previously measured when determining the fair value of financial instruments. These factors include nonperformance risk (the risk that the obligation will not be fulfilled) and credit risk, of the reporting entity (for liabilities) and of the counterparty (for assets). The fair value measurement guidance prohibits inclusion of transaction costs and any adjustments for blockage factors in determining the instruments' fair value. The principal or most advantageous market should be considered from the perspective of the reporting entity.

Fair value, where available, is based on observable quoted market prices. Where observable prices or inputs are not available, several valuation models and techniques are applied. These models and techniques attempt to maximize the use of observable inputs and minimize the use of unobservable inputs. The process involves varying levels of management judgment, the degree of which is dependent on the price transparency of the instruments or market and the instruments' complexity. To increase consistency and enhance disclosure of the fair value of financial instruments, the fair value measurement accounting guidance creates a fair value hierarchy to prioritize the inputs used to measure fair value into three categories.

AMERICAN COUNCIL FOR AN ENERGY-EFFICIENT ECONOMY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016, 2015 AND 2014
(continued)

NOTE F – INVESTMENTS AND FAIR VALUE MEASUREMENTS (continued)

A financial instrument’s level within the fair value hierarchy is based on the lowest level of input significant to the fair value measurement, where Level 1 is the highest and Level 3 is the lowest. The three levels are defined as follows:

Level 1 – Observable inputs such as quoted prices in active markets. Active markets are those in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Inputs other than quoted prices in active markets that are either directly or indirectly observable. These include quoted market prices for similar assets or liabilities, quoted market prices for identical or similar assets in markets that are not active, adjusted quoted market prices, inputs from observable data such as interest rate and yield curves, volatilities or default rates observable at commonly quoted intervals or inputs derived from observable market data by correlation or other means.

Level 3 – These are investments where values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect certain assumptions by management about the assumptions market participants would use in pricing the investments. These investments include non-readily marketable securities that do not have an active market.

The fair value of money market funds is valued by carrying amount, which approximates fair value. Fair values of ACEEE’s mutual funds have been determined by ACEEE from observable market quotations.

The following table presents ACEEE’s fair value hierarchy for financial instruments measured at fair value on a recurring basis as of December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 1,910,918	\$ -	\$ -	\$ 1,910,918
Mutual funds:				
Bond funds	2,791,091	-	-	2,791,091
Stock funds	2,079,768	-	-	2,079,768
Blended funds	579,720	-	-	579,720
Total Mutual Funds	<u>5,450,579</u>	<u>-</u>	<u>-</u>	<u>5,450,579</u>
 Total Investments	 <u>\$ 7,361,497</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 7,361,497</u>

AMERICAN COUNCIL FOR AN ENERGY-EFFICIENT ECONOMY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016, 2015 AND 2014
(continued)

NOTE F – INVESTMENTS AND FAIR VALUE MEASUREMENTS (continued)

The following table presents ACEEE’s fair value hierarchy for financial instruments measured at fair value on a recurring basis as of December 31, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 1,141,617	\$ -	\$ -	\$ 1,141,617
Mutual funds:				
Bond funds	3,212,911	-	-	3,212,911
Stock funds	1,625,685	-	-	1,625,685
Blended funds	535,235	-	-	535,235
Total Mutual Funds	<u>5,373,831</u>	<u>-</u>	<u>-</u>	<u>5,373,831</u>
Total Investments	<u>\$ 6,515,448</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,515,448</u>

The following table presents ACEEE’s fair value hierarchy for financial instruments measured at fair value on a recurring basis as of December 31, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 1,440,830	\$ -	\$ -	\$ 1,440,830
Mutual funds:				
Bond funds	3,233,461	-	-	3,233,461
Stock funds	1,619,837	-	-	1,619,837
Blended funds	534,566	-	-	534,566
Total Mutual Funds	<u>5,387,864</u>	<u>-</u>	<u>-</u>	<u>5,387,864</u>
Total Investments	<u>\$ 6,828,694</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,828,694</u>

The above tables exclude investments in certificates of deposits, which are reported at cost, and were \$122,482, \$122,361, and \$122,363 as of December 31, 2016, 2015 and 2014, respectively.

NOTE G – RETIREMENT PLAN

A qualified 403(b) retirement plan (the “Plan”) has been established for which all eligible employees are eligible to participate and make salary deferral contributions up to the federal limits annually. Under the Plan, ACEEE will match up to 5% of eligible employee compensation. Total employer contributions to the plan were \$223,714, \$192,769, and \$191,971 for the years ended December 31, 2016, 2015 and 2014, respectively.

AMERICAN COUNCIL FOR AN ENERGY-EFFICIENT ECONOMY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016, 2015 AND 2014
(continued)

NOTE H – CONCENTRATIONS

Balances in certain cash accounts occasionally exceed \$250,000, the maximum amount insured by the Federal Deposit Insurance Corporation. ACEEE has not experienced any losses in such accounts and believes it is not exposed to any significant risk.

NOTE I – OPERATING LEASE

On March 5, 2008, ACEEE entered into an operating lease agreement for office space which was scheduled to expire on July 31, 2018, with an option to renew for an additional five years. Effective May 16, 2014, ACEEE entered into an amendment to the lease agreement, which expanded the original office space and extended the expiration to July 31, 2021, with an option to renew for an additional five years. The agreement contains tenant allowances for improvements, escalation clauses, and charges for other costs related to the leased office space. Effective July 7, 2016, ACEEE entered into an amendment to the lease agreement, which expanded office space, but retained the expiration date of July 31, 2021, and the option to renew for an additional five years. The 2016 amendment also includes tenant allowances for improvements, escalation clauses, and charges for other costs related to the leased office space.

In accordance with the original lease agreement, ACEEE obtained an irrevocable letter of credit in the amount of \$113,262 as a security deposit, secured by a certificate of deposit which is included in short-term investments. Per the May 16, 2014 amendments, the required security deposit was reduced to \$48,915 and with a reissued letter of credit in the same amount. Per the July 7, 2016 amendment, the required letter of credit was increased to \$53,392.

Rent expense is recognized on a straight-line basis over the term of the lease. The difference between expense and the required lease payments is reflected as deferred rent on the accompanying statements of financial position. Total rent expense under the operating lease for the years ended December 31, 2016, 2015 and 2014 was \$579,541, \$586,580, and \$568,099, respectively.

Future minimum lease payments required under the operating lease are as follows for the years ended December 31:

2017	\$ 675,561
2018	667,446
2019	648,103
2020	664,278
2021	393,433
Total	<u>\$ 3,048,821</u>

AMERICAN COUNCIL FOR AN ENERGY-EFFICIENT ECONOMY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016, 2015 AND 2014
(continued)

NOTE J – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted for the following purposes as of December 31, 2016, 2015 and 2014:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Policy	\$ 1,597,719	\$ 1,354,883	\$ 809,399
Promoting energy efficiency	725,980	844,045	202,236
Buildings	321,948	256,247	862,665
Transportation	262,448	216,524	177,046
General research	417,360	215,197	219,527
Industrial	63,269	183,326	381,073
Utilities	204,447	133,322	254,312
Others	547,035	5,838	3,314
Behavior	42,133	4,371	52,049
Conferences	225,524	191,146	167,993
Allies	-	-	105,696
Linda Latham Scholarship Fund	65,904	57,692	58,349
Total Temporarily Restricted Net Assets	<u>\$ 4,473,767</u>	<u>\$ 3,462,591</u>	<u>\$ 3,293,659</u>

NOTE K – SUBSEQUENT EVENTS

ACEEE's management has evaluated subsequent events for potential required disclosures through May 26, 2017 which is the date the financial statements were available to be issued. There were no additional events or transactions that were discovered during the evaluation that required further recognition or disclosure.

Supplemental Information

**AMERICAN COUNCIL FOR AN ENERGY-EFFICIENT ECONOMY
SCHEDULE OF FRINGE BENEFITS EXPENSES
YEAR ENDED DECEMBER 31, 2016**

ALLOWABLE FRINGE BENEFITS EXPENSES

Health, life and disability insurance, cafeteria plan and metro allowance	\$ 407,502
Retirement, tuition, and memberships	223,715
Holiday, sick and vacation	664,772
Payroll taxes	330,130
Other benefits	-
Total Allowable Fringe Benefit Expenses	<u>\$ 1,626,119</u>

AMERICAN COUNCIL FOR AN ENERGY-EFFICIENT ECONOMY
SCHEDULE OF INDIRECT COSTS
YEAR ENDED DECEMBER 31, 2016

Salaries	\$ 851,025
Employee benefits and taxes	348,771
Rent	117,347
Consultants	79,081
Telephone	78,283
Supplies	52,021
Accounting fees	26,800
Insurance	19,421
Travel	14,182
Printing	36,643
Staff development	43,544
Depreciation and amortization	12,808
Meals and entertainment	19,858
Dues and subscriptions	12,082
Conferences and meetings	1,504
Bank charges	6,382
Legal services	6,739
Miscellaneous	14,259
Postage and shipping	2,581
Total Indirect Costs	<u>1,743,331</u>
Less unallowable costs:	
Amounts subsidized by ACEEE	(80,162)
Amounts subsidized by other grants	(10,000)
Meals and entertainment	(19,858)
Total Unallowable Costs	<u>(110,020)</u>
Total Allowable Indirect Costs	<u><u>\$ 1,633,311</u></u>

**AMERICAN COUNCIL FOR AN ENERGY-EFFICIENT ECONOMY
SCHEDULE OF DETERMINATION OF INDIRECT COSTS RATES
YEAR ENDED DECEMBER 31, 2016**

FRINGE BENEFITS RATE

<u>Numerator</u>	
Total Fringe Benefits	\$ 1,626,119
 <u>Denominator</u>	
Total Salaries	\$ 4,092,946
Fringe Benefits Rate	<u>39.73%</u>

DEPRECIATION AND AMORTIZATION RATE

<u>Numerator</u>	
Total Depreciation and Amortization	\$ 108,426
 <u>Denominator</u>	
Total salaries	\$ 4,092,946
Total fringe benefits	1,626,119
Total	<u>\$ 5,719,065</u>
Depreciation and Amortization Rate	<u>1.90%</u>

RENT RATE

<u>Numerator</u>	
Total Rent	\$ 579,541
 <u>Denominator</u>	
Total salaries	\$ 4,092,946
Total fringe benefits	1,626,119
Total	<u>\$ 5,719,065</u>
Rent Rate	<u>10.13%</u>

**AMERICAN COUNCIL FOR AN ENERGY-EFFICIENT ECONOMY
SCHEDULE OF DETERMINATION OF OTHER RATES
YEAR ENDED DECEMBER 31, 2016**

GENERAL AND ADMINISTRATIVE COST RATE

<u>Numerator</u>	
Total Allowable General and Administrative Costs	\$ 970,386
 <u>Denominator</u>	
Direct salaries	\$ 3,241,921
Applied fringe benefits	1,277,348
Total	<u>\$ 4,519,269</u>
General and Administrative Cost Rate	<u>21.47%</u>

HUMAN RESOURCES RATE

<u>Numerator</u>	
Total Human Resources Expense	\$ 139,217
 <u>Denominator</u>	
Total salaries	\$ 4,092,946
Total fringe benefits	1,626,119
Total	<u>\$ 5,719,065</u>
Human Resources Rate	<u>2.43%</u>

IT, WEBSITE, AND DATABASE RATE

<u>Numerator</u>	
Total IT, Website, and Database Expense	\$ 394,479
 <u>Denominator</u>	
Total salaries	\$ 4,092,946
Total fringe benefits	1,626,119
Total	<u>\$ 5,719,065</u>
IT, Website, and Database Rate	<u>6.90%</u>

SUPPLIES AND TELECOMMUNICATIONS

<u>Numerator</u>	
Total Supplies and Telecommunications	\$ 129,229
 <u>Denominator</u>	
Total salaries	\$ 4,092,946
Total fringe benefits	1,626,119
Total	<u>\$ 5,719,065</u>
Supplies and Telecommunications Rate	<u>2.26%</u>